State of Maine

Public Utilities Commission

Northern Utilities, Inc.	**)**	**Docket No. 97-393**

<u>Stipulation</u>

This Stipulation is presented to the Commission by Northern Utilities Inc. and the Office of the Public Advocate ("Parties to the Stipulation" or "Parties") with the intent of resolving the above referenced proceeding in a manner that is acceptable to all Parties to the Stipulation and with the expectation that the Parties and the Commission will experience administrative cost savings by reduced litigation in this matter.

<u>Article I - Introduction</u>

1.1 On April 15, 1998, Northern Utilities, Inc. ("Northern") filed for approval of the Commission revised Tariff Pages 1 through 88 (except for Pages 3, 7, 20, 27, 28 and 29). The tariffs were supported by the pre-filed direct testimony of Joseph A. Ferro, Director of Pricing Services for Northern, Paula A. Strauss, Senior Rate Analyst for Northern, and James L. Harrison, Vice President and Principal with Management Applications Consulting, Inc., a consulting firm retained by Northern to produce Marginal and Accounting Cost of Service Studies. The revised tariffs were designed to:

1) Re-design Northern's rate classes and base (also known as transportation) rates to reflect the marginal cost of serving customers at various usage levels and patterns;

2) Increase rates to residential customer classes, to maintain rates to certain commercial and industrial ("C&I") customer classes and to decrease to certain other C&I customers classes. These rate changes were designed to produce no additional revenues in total to Northern. These rate changes were to be implemented through five steps, over a nine year period.

3) Move all gas costs and certain other costs associated with providing gas supply service from base rates to Northern's Cost of Gas Adjustment ("CGA") Clause;

4) Re-design Northern's CGA so that different customer classes would be charged different CGA rates, and so that CGA rates would reflect usage patterns;

5) Offer transportation service to all Northern's C&I customers.

1.2 On November 23, 1998, Northern filed Supplemental Testimony wherein, as an alternate to the five step/nine year rate plan, Northern proposed a two step/four year rate plan.

1.3 The following parties intervened in the proceeding: the Office of the Public Advocate ("OPA"), ALLENERGY Marketing, Central Maine Power Company, Distrigas of Massachusetts Corporation, Enron Corporation, Robert Hains, Maritimes and Northeast Pipeline, L.L.C., Portland Natural Gas Transmission System.

1.4 Prior to Northern’s filing, the Commission held several duly noticed technical conferences at its offices on rate and service unbundling issues. Subsequent to Northern’s filing, the Commission held several duly noticed technical sessions on Northern’s proposal and on the testimony of Intervenors.

1.5 On September 16, 1998 the OPA filed the Direct testimony of Richard Hornby, Vice President and Director of Tellus Institute. Mr. Hornby filed Sur-Rebuttal Testimony on December 22, 1998.

1.6 On December 22, 1998, the Advisory Staff of the Commission filed the Analysis of Jatinder Kumar, of Economic & Technical Consultant’s Inc. (“Bench Analysis”). On February 25, 1999, Mr. Kumar submitted Supplemental Bench Analysis.

1.7 After the submission of all testimony and Bench Analyses, the Commission Staff conducted several duly noticed technical sessions wherein the Parties to the Stipulation discussed possible Stipulation of the issues in this Proceeding. This Stipulation resulted from that process. The

Staff, while not a party to the Stipulation, participated actively in the discussions to assist the Parties in their efforts to reach a Stipulation that the Staff would support before the Commission.

Article 2 - Revised Tariffs

2.1 Based on the foregoing, the Parties to the Stipulation agree that Northern's revised tariffs Nos. 1 through 88 should be approved effective November 1, 1999. These tariffs are attached to this Stipulation as Appendix A. These tariffs contain the following significant provisions:

A. Residential Customer Tariffs

1) Residential customers will be billed under the following transportation rate schedules:

Heating Customers (billed monthly)

Customer Charge:	$4.96
First 40 ccf:	$0.4026
Excess ccf	$0.2278

Non-Heating Customers (billed bi-monthly)

Customer Charge:	$9.92
First 80 ccf:	$0.4026
Excess ccf	$0.2278

These rates, are designed to produce an increase of 7.0% in total (transportation and cost of gas) revenues as compared to current rates.

2) All residential customers will pay the same CGF ("Cost of Gas Factor") rate.

3) Residential non-heat customers will be billed on a bi-monthly basis.

4) Detailed Residential Bill Impact Analyses are provided as Appendix B to this Stipulation.

B. Commercial and Industrial Customer Tariffs

1) Six C&I rate classes are established. The structure of these rate classes and the rates are set forth on Appendix C to this Stipulation. In general, the tariffs provided for the following:

2) The rates to the Low Annual High Peak Period Use C&I customers (Rate G/T-40) and the Low Annual, Low Peak Period Use C&I customers (Rates G/T-50) are designed to produce approximately the same total revenues that the current rates produce for these customers.

The same transportation rates apply to these classes.

The transportation rates are not seasonally differentiated.

Different CGF rates apply to these classes.

3) The rates to the Medium Annual, High Peak Period Use C&I customers (Rates G/T-41)and the Medium Annual, Low Peak Period Use C&I customers (Rates G/T-51) are designed to produce 1.79% less total revenues than the current rates produce for these customers.

The same transportation rates apply to these classes.

The transportation rates are seasonally differentiated.
Different CGF rates apply to these classes.

4) The rates to the High Annual, Low Peak Period Use customers (Rates G/T-52) are designed to produce 5.76% less total revenues than the current rates produce for these customers.

The rates to the High Annual, High Peak Period Use C&I customers (G/T-42) are designed to produce approximately the same total revenues that the current rates produce for these customers.

Different transportation rates apply to these classes. The transportation rates are seasonally differentiated.

Different CGF rates will apply to these classes.

5) Detailed Commercial and Industrial Bill Impact Analyses are provided as Appendix D to this Stipulation.

C. <u>Rate Calculation and Revenue Proof</u>

Attached to this Stipulation as Appendix E is a worksheet showing the calculation of the proposed rates and demonstrating that the proposed rates, in total, are designed to collect the same level of revenues as Northern's current rates.

D. <u>Tariff Provisions Moving Costs from Transportation Rates to CGF Clause</u>

The CGF clause included with the tariffs in Appendix A includes items that formerly were included in base rates. The transportation tariffs reflect the removal of these items. These items are:

1) <u>Gas Cost Portion of Test Year Bad Debts:</u>

- The CGF clause reflects $230,787 of test year bad debts related to gas costs.
- In addition, the CGF clause provides that in future CGF rate calculations, for effect May 1 and November 1, each year, an amount of gas cost related bad debts equal to 1.06% multiplied by estimated gas costs for the upcoming six months will be included in the CGF.

- Also, beginning May 1, 2000, the CGF clause will include an amount needed to reconcile the bad debt collection to correct for differences caused by changes in gas costs or sales for the prior off peak period, for CGF rates effective each May 1. For CGF rates effective each November 1, the CGF clause will reflect an amount needed to correct for differences caused by changes in gas costs or sales for the prior peak period. There will be no reconciliation to correct for differences between actual bad debts and l.06% of gas costs.

2) <u>Working Capital on Gas Costs:</u>

- The CGF clause reflects $95,621 of test year Working Capital on Gas Costs.

- In addition, the CGF clause provides that in future CGF rate calculations, for effect May 1 and November 1 each year, an amount of working capital on gas costs equal to 0.00441 multiplied by estimated gas costs for the upcoming six months will be included.

- Also, beginning May 1, 2000, the CGF rate will reflect an amount needed to reconcile the working capital collection to correct for differences caused by changes in gas costs or sales for the prior off peak period, for CGF rates effective each May 1. For CGF rates effective each November 1, the CGF rate will reflect an amount needed to reconcile the working capital collection to correct for differences caused by changes in gas costs or sales for the prior peak period. Thus, actual collection of working capital allowance associated with seasonal gas costs will be reconciled to actual gas costs for the respective seasons, multiplied by 0.00441. There will be no reconciliation to correct for differences between actual working capital and gas costs multiplied by 0.00441.

3) <u>Administrative Costs Associated with Gas Costs:</u>

- The CGF clause reflects $675,566 of test year Administrative Costs associated with gas supply planning and operations.

- This figure will be fixed until Northern's next base rate or rate redesign change. The allocation of these costs among rate classes will be consistent with the allocation of demand costs in the then current CGF filing.

4) Local Production Capacity Costs:

- The CGF clause reflects $480,642 of test year Local Production (LNG and LP) Capacity Costs.

- This figure will be fixed until Northern's next base rate or rate redesign change. The allocation of these costs among rate classes will be consistent with the allocation of LNG and LP resources in the then current CGF filing.

E. Other Significant Transportation Tariff Provisions

The Tariffs included in Appendix A contain several changes to Northern's existing transportation tariffs, including making transportation service available to all C&I customers. The Parties acknowledge that these changes are proposed at a time when the Commission has indicated its intent to open a generic investigation into transportation service which may affect the transportation tariff provisions proposed in this Stipulation.

The following significant transportation related provisions are included in the Tariffs in Appendix A.

1) Tariff Page 30.6A provides for Demand Delivery Service ("DDS") for Northern's transportation

customers to allow customers to expand the daily imbalance tolerance bandwidth. The revenues collected for this service will be credited to sales customers through the CGF clause.

2) Tariff Page 26 provides for Firm Standby Gas Supply Service service to allow Northern's transportation customers to purchase back-up gas supply service. The revenues collected for this service will be credited to sales customers through the CGF clause.

3) Tariff Page 30.6 provides for Daily Imbalance charges to Northern's transportation customers. No charge will be assessed for imbalances within the following tolerances:

Off-Peak	-	15% of Customer's Actual Daily Transportation Quantity
Peak	-	10% of Customer's Actual Daily Transportation Quantity

Imbalances outside the tolerance bandwidth will be charged at the following rates:

Off-Peak	-	10% of the New England City Gate Index
Peak	-	50% of the New England City Gate Index

The revenues collected for this service will be credited to sales customers through the CGF clause.

Article III - Low Income Discount

3.1 As part of this Stipulation, Northern agreed to, and did, support legislation before the Maine Legislature designed to grant the Commission specific authority to allow a discount rate for low-income residential customers. Said legislation has not been adopted.

3.2 In the event that the Maine Legislature grants the Commission specific authority to authorize a low income discount, Northern agrees that no later than at the time of its next base rate case or rate redesign case, Northern will propose a low income discount rate for residential customers.

Article IV - Miscellaneous Provisions

4.1 The entry of an order by the Commission pursuant to this Stipulation shall not constitute a determination by the Commission as to the merits of any allegations or contentions made in this proceeding. However, approval of the Stipulation indicates that the Commission believes that the terms of the Stipulation, when taken as a whole, are reasonable.

4.2 This Stipulation is expressly conditioned upon the Commission's acceptance, on or before June 1, 1999, of all provisions herein, without change or condition, with the exception of Article III regarding Northern’s agreement to file for approval of a low income discount. The Commission may sever Article III from this Stipulation without affecting the remaining terms. If this Stipulation is not accepted (with or without Article III) it shall be deemed withdrawn and shall not constitute any part of the record in this proceeding or be used for any other purpose.

4.3 The discussions which have produced the Stipulation have been conducted with the understanding that all offers of settlement and discussions relating hereto are and shall be privileged, shall be without prejudice to the position of any party or participant presenting such offer or participating in any such discussion, and are not to be used in any manner in connection with these or other proceedings involving any one or
more of the parties to this Stipulation, or otherwise.

Article V - Conclusion

Wherefore, Northern Utilities Inc. and the Office of the Public Advocate respectfully request that the Commission approve of this Stipulation on or before June 1, 1999.

Respectfully submitted,

NORTHERN UTILITIES, INC. **OFFICE OF THE PUBLIC ADVOCATE**

By its attorney

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